

STATE OF IDAHO TAX UPDATE

VOLUME FIFTEEN – NUMBER ONE

JUNE 2003



This issue of Tax Update deals with new tax laws and other topics. If you have questions about this material or if you need more information, contact the Idaho State Tax Commission.

Sales Tax Issues Clarified

Idaho's sales and use tax rate increased to 6% on May 1, 2003, under a bill passed by the Idaho Legislature. Information and bracket sheets were mailed to retailers at the end of April. Another bracket card is being sent to retailers with their sales tax returns. If you'd like more information about the sales tax increase, call the Idaho State Tax Commission or go to our Web site at www2.state.id.us/tax.

While the transition to a new tax rate has been relatively smooth, there are a few issues we'd like to clarify.

WHEN TO REMIT TAX

If you're a retailer, you should be sending sales tax to the Tax Commission for the period in which a sale was made, even if your customer hasn't paid for the merchandise. (See Sales Tax Rule 105.) This system is called an accrual method of accounting and must be followed even if you use the cash method in your business.

CUSTOMER REFUNDS

If a customer bought an item before May 1 and returns it after that date, you should refund the amount of tax the customer actually paid.

For example, if the customer paid 5% tax on goods purchased April 20 and returns them for a refund in July, you should refund the 5% tax regardless of the fact that the tax rate increased to 6% on May 1.

TAXABLE PURCHASES

The Legislature didn't change the types of purchases that are taxed. Sales tax still applies to the sales, rental, or lease of tangible personal property and some services. For more information on taxable sales, visit our Web site (click on Publications, then Sales Tax Brochures).

Cigarette Tax Hike Affects Wholesalers

Idaho's tax on a pack of 20 cigarettes went up to 57 cents on June 1, under a new law (House Bill 264) that also imposed a one-time floor stock tax as of that date. The new rate will be reflected on the returns wholesalers receive from the Tax Commission after June 20.

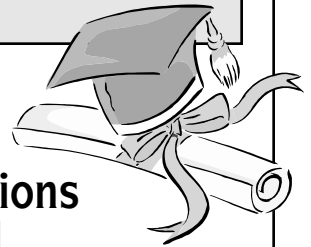
Wholesalers are required to report their inventory of stamped cigarettes on hand after midnight on June 1 and file a

Cigarette Floor Stock Tax Schedule (Form 1550-FS) with payment of a one-time floor stock tax. Both the form and payment must be filed with the Tax Commission by July 21, 2003. The form must be filed even if no tax is due.

Also, the discount for affixing cigarette stamps has changed to 2.61% of the face value of the affixed stamp.

(continued on back)

College Savings Contributions Clarified



If you contribute to an approved Idaho college savings program, you can deduct up to \$4,000 annually on your state individual income tax return (\$8,000 on a joint return). You must make the contributions by the end of a calendar year in order to claim them on that year's tax return. (For tax year 2000 only, the Legislature allowed taxpayers to make contributions until April 15, 2001.)

TIAA-CREF Tuition Financing, Inc. is the program manager and approved financial institution for Idaho's college savings program. Only contributions to TIAA-CREF qualify for the deduction. For more information on this program, call the Tax Commission or visit our Web site (click on Publications, then Income Tax Brochures).

Veterans Medallions Exempt



Silver medallions sold by, or on behalf of, the State Treasurer to fund Idaho's Veterans Cemetery are exempt from sales and use tax. (See House Bill 415). They are taxable if resold.

Bonus Depreciation Explained

If your business qualifies for the first-year bonus depreciation and you claim it on your federal income tax return, you must add it back on your Idaho return.

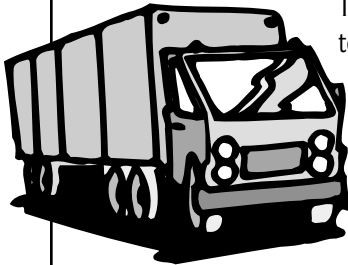
As a result, the "adjusted basis" of the property (generally its cost less its depreciation) will be larger for your Idaho return than your federal return. This means you will deduct less depreciation on your Idaho return for the year the equipment is placed in service. However, over the remaining life of your property, you will be able to take more depreciation each year on your state income tax

return than on your federal return.

The federal 30% first-year bonus depreciation provision is part of the Economic Development and Recovery Act of 2001. It affects qualifying property purchased from Sept. 10, 2001, to Sept. 10, 2003.

The new Federal Jobs and Growth Tax Relief Reconciliation Act of 2003 increases first-year bonus depreciation to 50% for investments acquired and placed in service after May 5, 2003, and before Jan. 1, 2005. This amount is also not deductible on your Idaho return.

Tax Commission Combines Trucker Audits



Truckers registered under the International Registration Plan (IRP) will now be audited by the Tax

Commission instead of the Idaho Transportation Department (ITD). Audit responsibilities were transferred in May 2003, when four IRP auditors were moved from ITD to the Tax Commission.

The IRP program audits the same trucking company records as the Inter-

national Fuels Tax Audit (IFTA) program, which is administered by the Tax Commission. Merging the two audit functions will streamline audits for truckers and centralize information on registration and fuels tax issues.

Cigarette Tax Hike

(continued from front side)

Questions about the cigarette tax should be directed to 334-7693 in the Boise area or toll free at 800-972-7660, ext. 7693.



Where To Get Information

If you would like to know more about Idaho state taxes, call the Idaho State Tax Commission at:

TOLL-FREE
800-972-7660

or in the Boise area, **334-7660**.

YOU CAN VISIT OUR OFFICES AT:

Boise: 800 Park Blvd., Plaza IV

Idaho Falls: 150 Shoup Ave., Ste. 16

Lewiston: 1118 F Street

Pocatello: 611 Wilson St., Ste. 5

Twin Falls: 1038 Blue Lakes Blvd. N., Ste. C

Coeur d'Alene: 1910 Northwest Blvd., Ste. 100

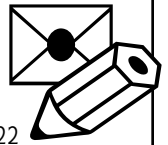
HEARING IMPAIRED CALLERS:

Use the Idaho Relay Service
1-800-377-3529

Costs associated with this publication are available from the Idaho State Tax Commission in accordance with Section 60-202, Idaho Code.

Unless otherwise noted, information in TAX UPDATE applies only to Idaho taxes. This newsletter is designed to provide general information only, and is not intended to offer comprehensive explanations of Idaho tax laws and rules. Comments about TAX UPDATE and suggestions for future issues should be sent to:

TAX UPDATE Editor
Public Information Office
State Tax Commission
P.O. Box 36 • Boise, ID 83722



J U N E 2 0 0 3

This issue of Tax Update deals with:
NEW TAX LAWS & OTHER TOPICS

IDAHO STATE TAX COMMISSION

P.O. Box 36

Boise, Idaho 83722